

**Supplemental Reporting Document  
Table of Contents  
February 2006 Investment Committee Meeting  
(December 2005 Reporting Period)**

**Quarterly Reports**

AIM Program  
Proxy Voting



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February 14, 2006

**SUPPLEMENTAL ITEM**

**TO: MEMBERS OF THE INVESTMENT COMMITTEE**

- I. SUBJECT:** Quarterly Performance Report
- II. PROGRAM:** Alternative Investment Management (AIM) Program
- III. RECOMMENDATION:** Consent
- IV. ANALYSIS:**

**Background**

In accordance with AIM Program Policy and as provided for in the external resources' contracts, quarterly performance reports are required for the AIM Program. Attachment 1 provides the AIM Portfolio Performance Report as of September 30, 2005. The report may be modified over time to reflect additional enhancements.

**Program Review**

As of September 30, 2005, the AIM Program had 479 active commitments that totaled \$26.4 billion. Commitments to exited investments totaled \$1.8 billion bringing since inception (1990) commitments to \$28.2 billion. Since inception, the AIM Program has made contributions of \$17.9 billion and received distributions of \$14.1 billion. Of the \$14.1 billion in distributions, \$7.6 billion represents realized gains, income and dividends. The AIM Program's fully realized investments have provided a since inception return of 18.49%. This represents a 1.6x return of

contributed capital. Since Inception to September 30, 2005, the AIM Program has generated a net IRR of 12.0%.

**V. STRATEGIC PLAN:**

Goal VIII: Manage the risk and volatility of assets and liabilities to ensure sufficient funds are available, first, to pay benefits and second, to minimize and stabilize contributions.

**VI. RESULTS/COSTS:**

Attachment 1 provides the Executive Summary for the Alternative Investment Management Program - Quarterly Review prepared by the Private Edge group of State Street Corporation and verified by the Performance Reporting Unit staff.

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Dana C. Warmenhoven  
Investment Officer  
Performance Monitoring Unit

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Greg Hood  
Division Chief, Investment Office

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Anne Stausboll  
Interim Chief Investment Officer

**CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM**

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**ALTERNATIVE INVESTMENT MANAGEMENT PROGRAM**

**QUARTERLY REVIEW**

**EXECUTIVE SUMMARY**

*For the quarter ended  
September 30, 2005*

*Prepared by The PrivateEdge Group, State Street Corporation*



STATE STREET

## TABLE OF CONTENTS

<b>Section</b>	<b>Page</b>
<b>A. AIM PROGRAM - OVERALL PORTFOLIO.....</b>	<b>1</b>
Portfolio Summary .....	1
Performance .....	2
Portfolio Activity .....	2
<b>B. MARKET OVERVIEW .....</b>	<b>3</b>
<b>C. PORTFOLIO OVERVIEW .....</b>	<b>5</b>
Portfolio Diversification – By Strategy .....	5
Portfolio Geographic Diversification .....	6
Portfolio Company Diversification by Industry .....	7
California Focus .....	8
<b>D. AUTHORIZED COMMITMENTS.....</b>	<b>9</b>
<b>E. SIGNIFICANT EVENTS/ MATERIAL EXCEPTIONS TO POLICY .....</b>	<b>10</b>



## **TABLE OF CONTENTS (Continued)**

### **Page**

#### **TABLES**

Table 1 - Summary of AIM Portfolio .....	1
Table 2 - Amount Committed by Portfolio Strategy .....	5
Table 3 - Portfolio Company Distribution by Industry .....	7
Table 4 - California-Based Portfolio Diversification by Industry .....	8
Table 5 - Summary of Capital Commitments and Contributions .....	9

#### **FIGURES**

Figure 1 - AIM Program Cumulative Cash Flows Since Inception .....	2
Figure 2 - AIM Program Cumulative Distributions Since Inception .....	2
Figure 3 - Private Equity Funds Raised .....	3
Figure 4 - Private Equity Dollars Invested.....	4
Figure 5 - AIM Program - Portfolio Diversification by Strategy .....	5
Figure 6 - AIM Program - Portfolio Diversification by Geographic Location.....	6
Figure 7 - Portfolio Company Diversification by Industry .....	7



## I. ALTERNATIVE INVESTMENT MANAGEMENT PROGRAM (AIM)

### A. AIM PROGRAM - OVERALL PORTFOLIO

This quarterly review has been prepared by The PrivateEdge Group ("PEG") at State Street Corporation and verified by the Performance Monitoring Unit Staff, based on cash flow, valuation and activity data generated by PEG, Grove Street Advisors ("GSA"), and various AIM Program External Resources. Specific highlights of the portfolio are given below.

#### Portfolio Summary

- As of September 30, 2005, the AIM Program had 479 active commitments that totaled \$26.4 billion. Commitments to exited investments totaled \$1.8 billion, bringing since inception commitments to \$28.2 billion.
- Since inception, the AIM Program has made contributions of \$17.9 billion and received distributions of \$14.1 billion. Of the \$14.1 billion in distributions, \$7.6 billion represents realized gains, income and dividends. The Program has become self-funding. During the first nine months of 2005, distributions exceeded contributions by \$0.6 billion.
- Due to the young relative age of the AIM portfolio, a large amount of the committed capital has not been called. At September 30, 2005, 38% of the active capital commitments, or \$9.9 billion, remained unfunded.

#### SUMMARY OF AIM PORTFOLIO SINCE INCEPTION (MARCH 1990) THROUGH SEPTEMBER 30, 2005 (US\$ IN MILLIONS)

	Number of Commitments <sup>(1)</sup>	Capital Committed	Capital Contributed <sup>(2)</sup>	Reported Value <sup>(3)</sup>	Distributions		Investment Multiple
					Return of Capital	Realized Gain <sup>(4)</sup>	
<b>Total Active Commitments<sup>(5)</sup></b>	<b>479</b>	<b>\$26,399.1</b>	<b>\$16,487.8</b>	<b>\$10,268.0</b>	<b>\$5,337.9</b>	<b>\$6,473.8</b>	<b>1.3x</b>
<b>Total Exited Commitments<sup>(6)</sup></b>	<b>38</b>	<b>--</b>	<b>\$1,398.0</b>	<b>--</b>	<b>\$1,102.9</b>	<b>\$1,148.9</b>	<b>1.6x</b>

<sup>(1)</sup> Represents all authorized commitments as of September 30, 2005, including those commitments that have been authorized but not yet funded.

<sup>(2)</sup> Includes fees in excess of committed capital.

<sup>(3)</sup> Based on values reported by the general partners as September 30, 2005.

<sup>(4)</sup> Realized gains include interest, dividends, gains and losses distributed by the general partners in addition to interest paid by CalPERS for participation in subsequent closings of certain investments.

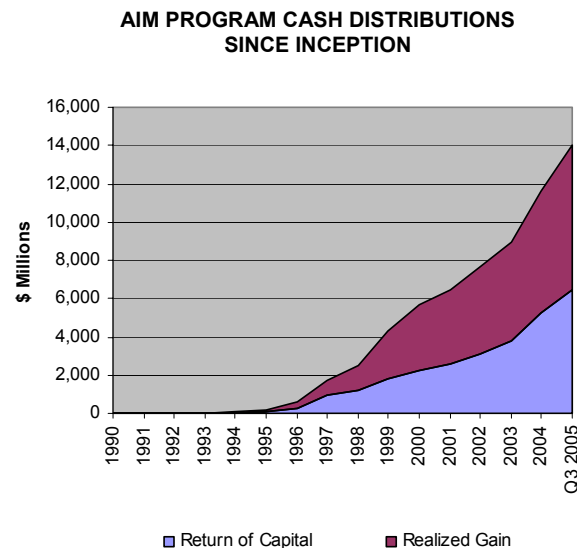
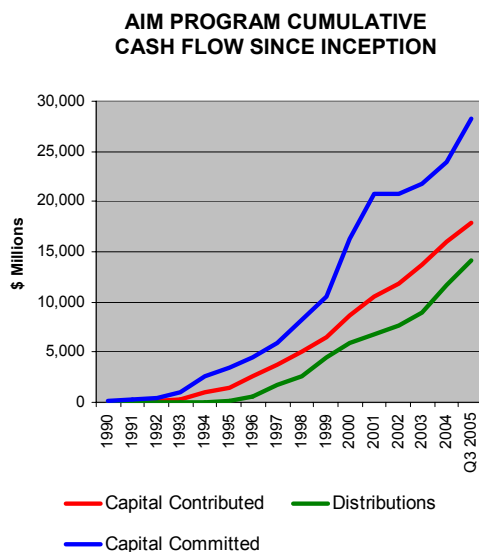
<sup>(5)</sup> An active commitment refers to an investment that has not reached the end of its legal term.

<sup>(6)</sup> An exited commitment is defined either as a commitment that has ended in accordance with the terms of the partnership agreement or a commitment in which the limited partners have chosen to end prematurely due to unforeseen circumstances.



## Performance

- Fully realized investments have provided a since inception return of 18.4%. This represents a 1.6x return of contributed capital.
- As of September 30, 2005, the weighted average age of all of the current investments in the AIM portfolio was 4.6 years. Consequently, a large portion of the portfolio is in the early stage of its investment life, when payment of fees has not been offset by young investments that are held at cost. This is known as the J-Curve effect.
- To address the young age of the partnership portfolio, CalPERS adopted a short-term benchmark, the Venture Economics Custom Young Fund Universe. The benchmark measures performance of the AIM partnerships in the first five years of life against a similarly aged universe of Venture Economics data. As of September 30, 2005, the AIM young fund net internal rate of return ("IRR") was 18.2% which exceeded the preliminary estimate of the Custom Young Fund Universe median return of 1.2% by 1,700 basis points. The AIM Program is displaying solid returns for a young portfolio.
- Since inception to September 30, 2005, the AIM Program generated a net IRR of 12.0%. At September 30, 2005, the public market ten-year rolling average return for the CalPERS' Custom Wilshire 2500 Index was 9.3%. The public markets have been recovering over the past few quarters, but there is typically a lag in the valuations in the private market relative to those in the public markets.



## Portfolio Activity

- 11 new commitments were authorized during the third quarter of 2005 for a total of \$1.2 billion.
- During the third quarter of 2005 the AIM Program received 90 investment opportunities. During the same period, GSA reviewed 101 investment opportunities on behalf of CEV I, II and III. Both the AIM Program and GSA may have reviewed some of the same opportunities.
- During the first nine months of 2005, the AIM Program contributed \$1,814.7 million to and received distributions of \$2,431.7 million from the underlying portfolio. Of the \$2,431.7 million in distributions, \$1,204.3 million represents income and realized gains.



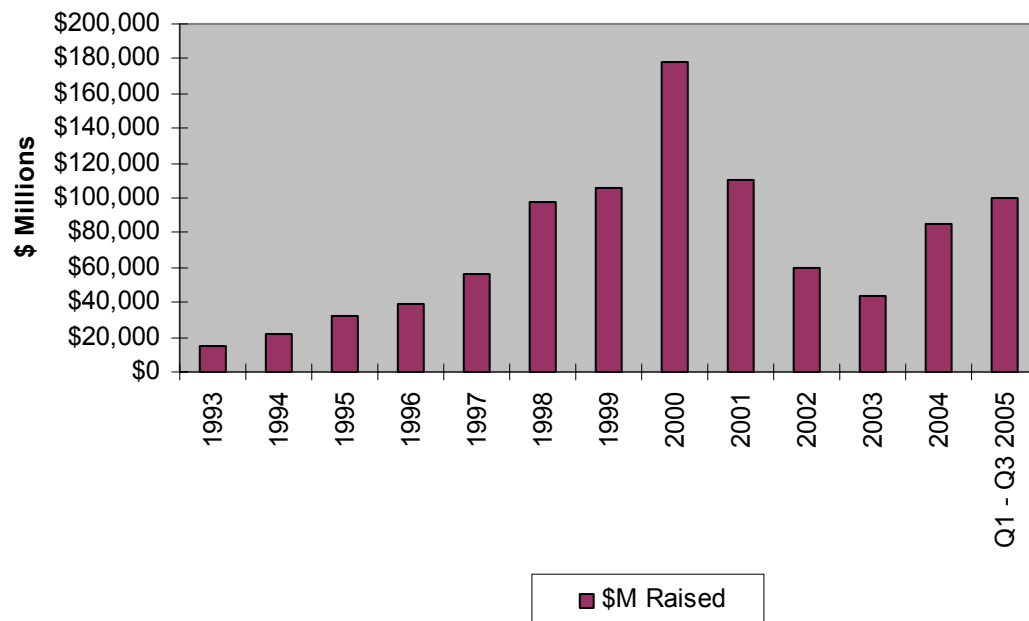


## B. MARKET OVERVIEW

### Market

- According to the Private Equity Analyst, \$100.4 billion was committed to 216 funds during the first nine months of 2005. The commitment pace is up 160% from the first nine months of 2004 when \$38.6 billion was committed to 119 funds. Venture capital fundraising was up 161% from the first nine months of 2004 with \$18.5 billion committed in the first nine months of 2005. Buyout fundraising was up 186% from the first nine months of 2005 with \$66.9 billion committed in the first nine months of 2005.

**Funds Raised (All Private Equity)**

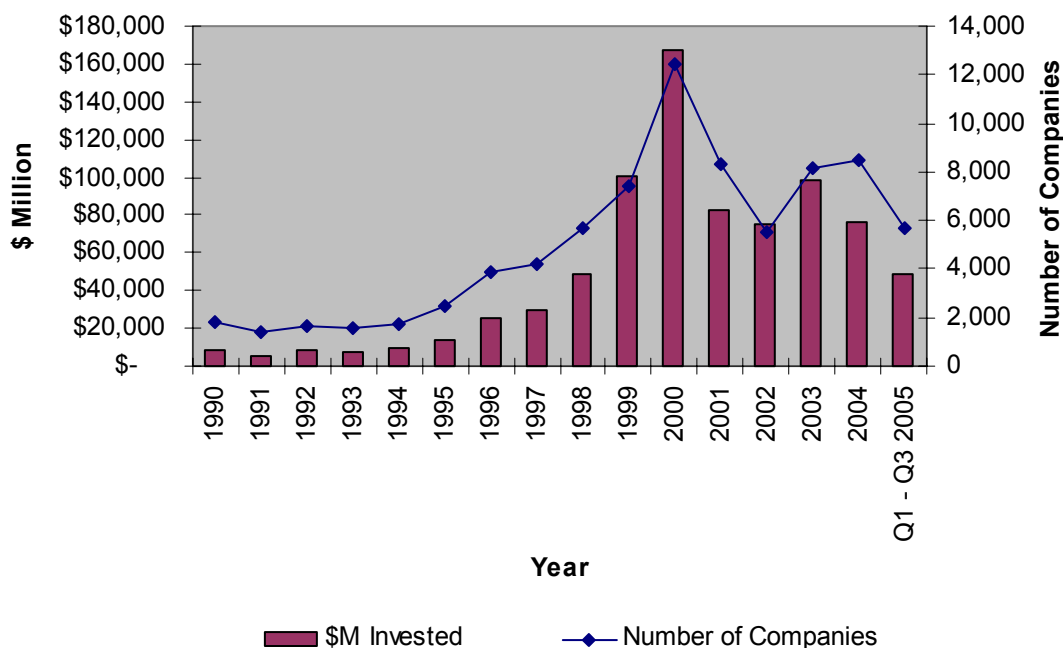


Source: Private Equity Analyst



- Deal activity for all private equity during the first nine months of 2005 decreased in both dollar amount and in the number of companies receiving funding compared to the first nine months of 2004. According to Venture Economics, 5,705 companies received \$48.6 billion in funding in the first nine months of 2005, compared with 6,335 companies that received \$59.1 billion in the first nine months of 2004.
- In the first nine months of 2005, venture capital activity decreased in both dollar amount and in the number of companies that received funding. According to Venture Economics, 4,703 companies received \$29.7 billion in venture funding in the first nine months of 2005 compared with 5,403 companies that received \$31.0 billion for the same period a year ago. During the first nine months of 2005, buyout activity decreased in both dollar amount and in the number of companies that received funding. According to Venture Economics, 2,110 companies received \$24.8 billion in buyout funding in the first nine months of 2005, compared with 2,146 companies that received \$34.2 billion for the same period in 2004.<sup>(8)</sup>

### Dollars Invested (All Private Equity)



Source: Venture Economics

<sup>(8)</sup> According to Venture Economics, certain investments meet the definitions for both Venture and Buyout categories and are included in the total for each category. For the purposes of determining the Total Private Equity investments for the quarter, these investments are included only once. As such, the sum of Venture and Buyout categories exceeds the Total Private Equity figures for the quarter by the amounts of the investments that meet both Venture and Buyout definitions.



## C. PORTFOLIO OVERVIEW

### Portfolio Diversification – By Strategy

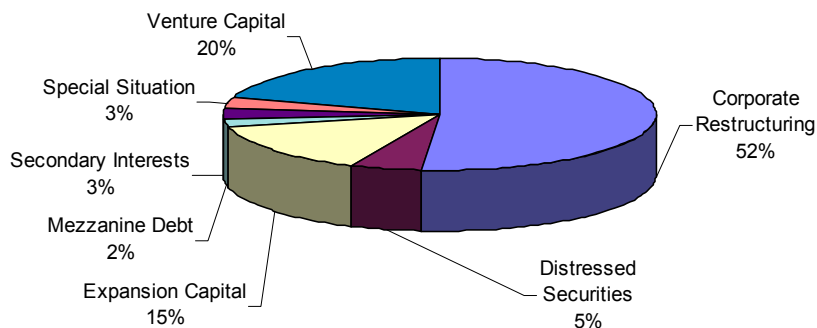
The AIM Program invests in all types of private equity and is well diversified. The current commitments are generally consistent with the diversification within the private equity marketplace. Thus, a majority of the active AIM Program commitments are to Corporate Restructuring, Venture Capital and Expansion Capital.

### ACTIVE COMMITMENTS BY PORTFOLIO STRATEGY (US\$MILLION)

	<i>Active Commitments</i>	<i>Contributions</i>	<i>Reported Value</i>	<i>DISTRIBUTIONS</i>	
				<i>Return of Capital</i>	<i>Realized Gain<sup>(9)</sup></i>
Corporate Restructuring	\$13,560.8	\$7,634.8	\$5,172.3	\$2,863.2	\$3,771.5
Distressed Securities	\$1,400.5	\$817.3	\$617.9	\$317.7	\$327.1
Expansion Capital	\$3,882.7	\$2,837.6	\$1,680.1	\$666.0	\$855.9
Mezzanine Debt	\$592.1	\$409.9	\$145.9	\$177.2	\$90.6
Secondary Interests	\$837.3	\$674.9	\$301.3	\$545.5	\$82.4
Special Situation	\$864.6	\$492.8	\$328.7	\$157.0	\$98.3
Venture Capital	\$5,261.1	\$3,620.5	\$2,021.8	\$611.3	\$1,248.0
<b>Total</b>	<b>\$26,399.1</b>	<b>\$16,487.8</b>	<b>\$10,268.0</b>	<b>\$5,337.9</b>	<b>\$6,473.8</b>

<sup>(9)</sup> Realized gains include interest, dividends and gains distributed by the general partners.

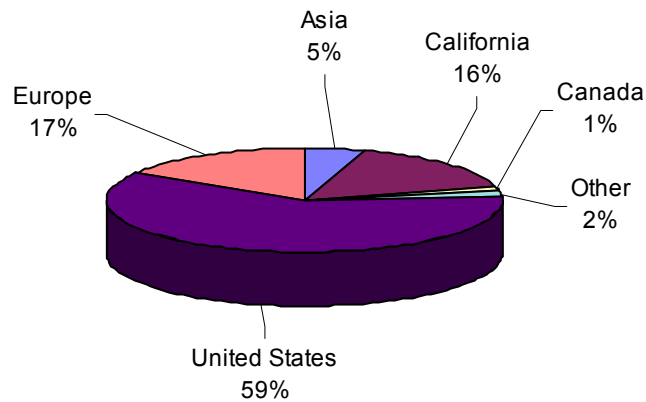
### AIM Program - Portfolio Diversification by Strategy As A Percentage of Active Commitments As of September 30, 2005



### **Portfolio Geographic Diversification**

As of September 30, 2005, CalPERS' AIM portfolio was well diversified by geographic region. By reported market value, 16% of the investments were in companies with their primary locations within California and 59% of the investments were in non-California domestic areas. International portfolio companies represented 25% of the total reported market value of all portfolio companies.

#### **Portfolio Diversification by Geographic Location As Measured by CalPERS' Market Value Exposure As of September 30, 2005**



## Portfolio Company Diversification by Industry

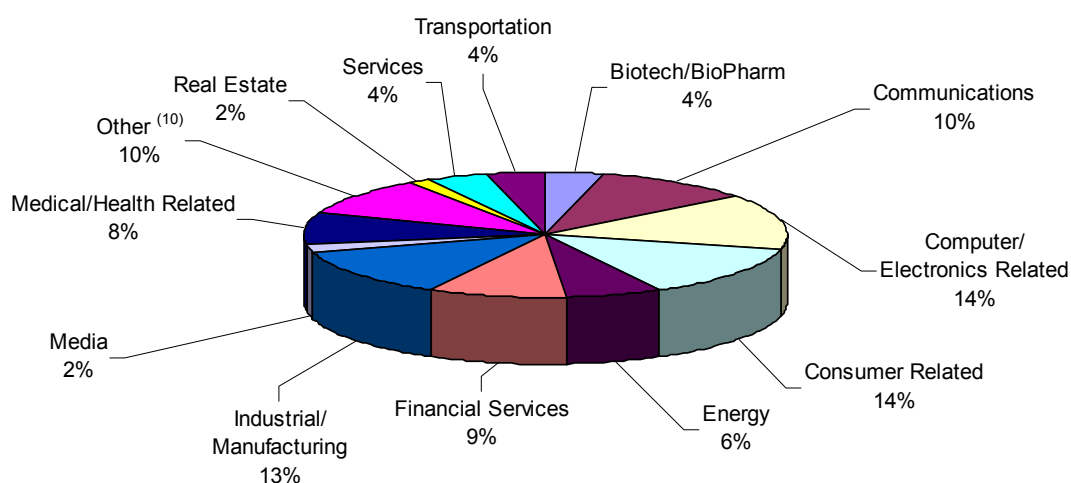
As of September 30, 2005, the CalPERS AIM portfolio was broadly diversified by industry. The table below outlines the current reported value of the portfolio companies held in the AIM portfolio. Within the overall portfolio, the largest segments were computer/electronics, consumer-related and industrial/manufacturing.

### **PORTFOLIO DIVERSIFICATION BY INDUSTRY AS OF SEPTEMBER 30, 2005**

<b>Industry</b>	<b>Reported Value (US\$ MILLIONS)</b>
Biotechnology/BioPharma	377.0
Communications	1,015.9
Computer/Electronics -Related	1,359.0
Consumer-Related	1,328.9
Energy	605.2
Financial Services	882.5
Industrial/Manufacturing	1,257.3
Media	177.9
Medical/Health-Related	790.3
Other <sup>(10)</sup>	941.6
Real Estate	151.5
Services	389.3
Transportation	379.3
<b>Total</b>	<b>9,655.8</b>

<sup>(10)</sup> Includes CalPERS' investments held through fund-of-funds.

### **Portfolio Diversification by Industry As Measured by CalPERS' Market Value Exposure As of September 30, 2005**



### California Focus

As of September 30, 2005, the AIM Program had \$9.5 billion in active commitments that were either headquartered or had a major presence in California. Active commitments to funds that focus primarily on investments in California were \$2.0 billion. In addition, many AIM Program partnerships actively make investments in California. Currently, California-based companies represent 16% of the reported market value of the AIM portfolio.

#### **CALIFORNIA-BASED PORTFOLIO DIVERSIFICATION BY INDUSTRY AS OF SEPTEMBER 30, 2005**

<b>Industry</b>	<b>Reported Value (US\$ IN MILLIONS)</b>
Biotechnology/BioPharma	\$ 176.6
Communications	118.6
Computer/Electronics Related	350.2
Consumer-Related	147.4
Energy	26.8
Financial Services	130.1
Industrial Products/Manufacturing	99.6
Media	37.9
Medical/Health-Related	190.0
Other <sup>(11)</sup>	127.2
Real Estate	27.4
Services	81.5
Transportation	31.0
<b>Total</b>	<b>\$ 1,544.3</b>

<sup>(11)</sup> Includes CalPERS' investments held through fund-of-funds.

The AIM Program includes a California-oriented component that is designed to take advantage of a number of factors conducive to targeted investment activity within the state: (i) the unique size characteristics of the California economy; (ii) the existence of a "capital gap" for certain business segments within the state; and (iii) the ability to construct a diversified array of investment vehicles that reflects the state's large number of business entities and the wide range of development cycles that they represent.



## D. AUTHORIZED COMMITMENTS

During the third quarter of 2005, the AIM Program authorized 11 new investments, totaling \$1.2 billion in new commitments.

### Commitments and Contributions Since Inception

Since inception to September 30, 2005, CalPERS has contributed capital of \$17.9 billion, including exited investments. As expected, the earlier vintage year partnerships have the highest deployment percentage as it typically takes some time for each partnership to call down the full amount of committed capital. The total capital committed by vintage year is presented in the table below.

**SUMMARY OF CAPITAL COMMITMENTS AND CONTRIBUTIONS  
(US\$ IN MILLIONS)**

<i>Vintage Year</i>	<i>Capital Committed</i>	<i>Capital Contributed</i>	<i>Reported Value</i>	<i>Return of Capital</i>	<i>Realized Gain<sup>(12)</sup></i>	<i>Investment Multiple</i>
<b>1990</b>	\$125.3	\$121.9	\$3.1	\$119.0	\$171.8	2.4
<b>1991</b>	171.7	179.6	0.3	150.5	357.0	2.8
<b>1992</b>	160.0	156.6	4.9	106.7	224.0	2.1
<b>1993</b>	563.0	562.0	75.9	429.9	556.9	1.9
<b>1994</b>	1,507.6	1,417.4	215.2	871.1	1,350.3	1.7
<b>1995</b>	1,197.9	1,136.4	241.1	612.6	949.9	1.6
<b>1996</b>	1,155.9	1,133.7	156.7	584.9	748.0	1.3
<b>1997</b>	1,111.9	1,086.4	392.5	428.9	698.7	1.4
<b>1998</b>	2,217.4	2,158.3	1,012.5	916.9	816.8	1.3
<b>1999</b>	1,257.4	1,127.5	566.5	333.0	348.4	1.1
<b>2000</b>	3,977.6	3,219.9	2,410.3	615.0	529.1	1.1
<b>2001</b>	4,780.1	3,305.5	2,709.6	962.3	633.5	1.3
<b>2002</b>	1,085.3	643.3	658.4	109.8	119.3	N/M
<b>2003</b>	1,496.2	788.3	999.5	113.7	99.5	N/M
<b>2004</b>	1,905.1	533.3	512.7	81.0	21.0	N/M
<b>2005</b>	2,625.7	315.7	308.8	5.5	(1.5)	N/M
<b>Authorized<sup>(13)</sup></b>	\$2,874.7	-	-	-	-	N/A
<b>Total</b>	<b>\$28,212.8</b>	<b>\$17,885.8</b>	<b>\$10,268.0</b>	<b>\$6,440.8</b>	<b>\$7,622.7</b>	<b>1.4</b>

<sup>(12)</sup> Realized gains include interest, dividends, gains and losses distributed by the general partners in addition to interest paid by CalPERS for participation in subsequent closings of certain investments.

<sup>(13)</sup> These commitments have been authorized subject to satisfactory final due diligence, negotiation of investment terms and conditions and completion of all legal documents, including opinions of counsel regarding the preservation of CalPERS' limited liability status, and no material changes to the investment opportunity.



## **E. SIGNIFICANT EVENTS/ MATERIAL EXCEPTIONS TO POLICY (AS REPORTED BY THE AIM PROGRAM)**

### **Significant Events**

- None to report for the quarter ended September 30, 2005.

### **Material Exceptions to Policy**

- None to report for the quarter ended September 30, 2005.







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February 14, 2006

**SUPPLEMENTAL ITEM**

**TO: MEMBERS OF THE INVESTMENT COMMITTEE**

- I. SUBJECT:** Proxy Voting – Quarterly Report Results
- II. PROGRAM:** Public Markets
- III. RECOMMENDATION:** Consent Item
- IV. ANALYSIS:**

On a quarterly basis, staff provides a report on CalPERS' proxy voting results to the Investment Committee. This agenda item provides detailed results on CalPERS' proxy votes for the period October 1, 2005 to December 31, 2005. Staff is delegated the authority and responsibility to execute all proxies and voting instructions in a manner that is consistent with the Board's Global Proxy Voting Principles.

The following table provides a summary of CalPERS' internal proxy voting results for the period. Staff continues to update this table to provide the Committee with a 5-quarter rolling analysis of CalPERS' proxy voting results.

<b>Period</b>	<b>Approximate Number of Meetings Voted</b>	<b>Approximate Number of Individual Items Voted</b>	<b>Number of Shareowner Proposals Voted</b>	<b>Percent of Shareowner Proposals Supported</b>
10/01/05 to 12/31/05	531	2614	31	87%
07/01/05 to 09/30/05	397	2100	16	68%
04/01/05 to 06/30/05	3274	20054	575	74%
01/01/05 to 03/31/05	660	2958	46	48%
10/01/04 to 12/31/04	808	2944	12	61%

\*\*Source: ProxyEdge

In addition to the summary above, we have prepared detailed reports of CalPERS' proxy votes cast during the period October 1, 2005 to December 31, 2005, as attachments for this item. Although the attachments are not included in the agenda materials due to their size, they may be requested through the Investment Committee Secretary.

**Attachment 1** contains the internal proxy voting decisions made in CalPERS' domestic portfolios and CalPERS' international portfolios, including staff's comments.

**Attachment 2** contains the proxy votes for the Small Cap Index Fund (SW9P) that were cast on behalf of CalPERS between October 1, 2005 to December 31, 2005. To support resource constraints, CalPERS hired Glass Lewis & Co. to vote the approximately 2500 proxies (per year) within the Small Cap Fund.

## PROXY VOTING HIGHLIGHTS FOR THE DOMESTIC AND INTERNATIONAL PORTFOLIOS

### A. Domestic Proxy Voting

A sampling of domestic proxy votes cast **against** management from October 1, 2005 to December 31, 2005 includes:

#### 1) Egregious executive compensation plans:

Company	Cost Analysis	Additional Factors <sup>(5)</sup>
Electronics Boutique Holdings Corp.	Shareholder Value Transfer <sup>(1)</sup> : 21.46%, Allowable Cap <sup>(2)</sup> : 10.91%, and Voting Power Dilution <sup>(3)</sup> : 5.96%	The plan does not contain a significant portion of performance-based grants.
Finisar Corp.	The plan allows for the repricing of stock options.	The plan does not contain a significant portion of performance-based grants.
Maxim Integrated Products Inc.	The cost of the plan compared to the financial performance of the company was outside one standard deviation when compared to similar plans. <sup>(4)</sup>	Vesting is less than four years and a significant portion of equity grants are not performance based.

- 1) Shareholder Value Transfer - Dollar cost to the company of all stock option plans as participants exercise awards expressed as a percent of market value. Source: Institutional Shareholder Services.
- 2) Allowable Cap - Based on benchmark shareholder value transfer levels for the company's industry, expressed on a percent of market value. Source: Institutional Shareholder Services.
- 3) Voting Power Dilution - Share allocation from all stock option plans as a percent of share allocation plus shares outstanding. Source: Institutional Shareholder Services.

- 4) Glass Lewis & Co. evaluates equity-based plans using twenty different analyses, comparing the program with both absolute limits and a carefully chosen peer group. The model seeks to determine if the proposed plan is either more than one standard deviation away from the average plan for the peer group, on a range of criteria, or exceeds one of the absolute limits.
- 5) At the June 16, 2003 meeting, the CalPERS Board of Directors approved additional policy issues to be applied to voting in relation to compensation plans.

## 2) Shareowner proposals:

CalPERS voted **in favor** of the following shareowner proposals:

Company	Meeting	Proposal	Reason
Echostar Corp.	10/06/05	Shareowner proposal regarding Equal Opportunity Policy.	CalPERS is a firm supporter of anti-discrimination policies.
Cintas Corp.	10/18/05	Separate Chairman and CEO positions.	CalPERS believes if the chair is not the CEO the board may be able to exercise stronger oversight of management.
Cisco Systems Inc.	11/15/05	Shareowner proposal regarding Performance-Vesting Shares.	CalPERS is a firm supporter of performance based compensation.
Saks Inc.	12/08/05	Adopt Cumulative Voting.	CalPERS supports Cumulative Voting (see CA Gov. Code Section 6900).

CalPERS voted **against** the following shareowner proposals:

Company	Meeting	Proposal	Reason
The Proctor and Gamble Co.	10/11/05	Seek sale of company and assets.	CalPERS believes the request to explore the sale of the company may not be in the best long-term interests of shareowners.

### 3) Proxy Contests

There were no significant proxy contests during the quarter.

### 4) Mergers

Target	Acquirer	Date	Vote	Rationale
Maytag Corp.	Whirlpool Corp.	12/22/05	For	CalPERS believes the merger makes economic sense because of the market premium offered and expected strategic synergies.
Wellchoice Inc.	Wellpoint Inc.	12/28/05	For	CalPERS believes the merger makes economic sense because of the market premium offered and expected strategic synergies.

### 5) Website votes

The following is a sample of Website votes cast during the quarter:

Company/Date	Issue	Vote	Reason
Cardinal Health Inc. 11/02/05	Elect directors	Withhold vote from nominee J. McCoy.	CalPERS withheld its vote from Compensation Committee chair McCoy due to the company's weak link between executive compensation and economic performance.
Archer-Daniels Midland Co. 11/03/05	Elect directors	Withhold vote from nominee O'Neill.	Nominee is an affiliate that sits on the Audit and Nominating Committees.

## B. International Proxy Voting

A sampling of International proxy votes cast **against** management during the quarter:

Company	Country	Date	Issue	Reason
Hana Bank	South Korea	10/17/05	Approve changes in Stock Option Exercise.	The company has not disclosed adequate information for shareowner approval.
Futuris Corp. LTD.	Australia	10/21/05	Approve stock option grant.	The plan allows for the re-testing of performance metrics.
Bendigo Bank Limited	Australia	10/31/05	Approve Remuneration Report.	The plan does not contain any performance hurdles.

**V. STRATEGIC PLAN:**

This item is not a product of either the 2005-06 Strategic or Annual Plan.

**VI. RESULTS/COSTS:**

Costs associated with proxy voting are contained within the Investment Office budget. Total expenses related to proxy voting are approximately \$300,000 annually.

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Investment Officer

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Aeisha Mastagni  
Investment Officer

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Senior Portfolio Manager, Corporate Governance

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Christianna Wood  
Senior Investment Officer

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Anne Stausboll  
Interim Chief Investment Officer